

## **Wales Pension Partnership Responsible Investment Policy**

### **1 Introduction and oversight**

- 1.1 The Wales Pension Partnership (WPP) is the pooling arrangement for the assets of the eight Welsh Local Government Pension Scheme funds (Constituent Authorities).
- 1.2 The investment arrangements of WPP are overseen by a Joint Governance Committee (JGC) and supported by an Officer Working Group (OWG), and implemented through a range of WPP investments – this includes actively managed Sub-Funds, as well as passive mandates within listed markets; and actively managed investment programmes in private (illiquid) markets – that are managed by WPP’s Investment Managers. Implementation is supported by various service providers, including the Operator and Oversight Advisor.
- 1.3 The Responsible Investment (RI) Sub-Group provides oversight and advice to the OWG and JGC on the development and implementation of this policy. The RI Sub-Group operates under an agreed Terms of Reference.
- 1.4 This document sets out WPP’s policy on RI for all assets invested within the WPP. This policy has been developed by WPP in consultation with the Constituent Authorities.
- 1.5 WPP’s objective in preparing and implementing this policy is to be able to:
  - 1.5.1 demonstrate to its stakeholders that the WPP is a responsible investor; and
  - 1.5.2 enable the Constituent Authorities to substantially deliver their own RI and associated Policies through the WPP.
- 1.6 WPP recognises that RI considerations pose financially material risks to the assets of Constituent Authorities held within WPP. Such considerations are relevant in relation to both the way the assets of Constituent Authorities are invested and in the exercise of stewardship responsibilities.
- 1.7 This policy will be reviewed by WPP on an annual basis and, if necessary, changes to the policy will be proposed to and agreed by the JGC and OWG. In order to inform the policy review, WPP will consult with or otherwise obtain the views and requirements of all Constituent Authorities.
- 1.8 In developing and implementing this policy, WPP will have regard to the Well-being of Future Generations (Wales) Act 2015, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, The Pensions Regulator General Code of Practice, and any relevant guidance provided by the Scheme Advisory Board (SAB), the Department for Levelling Up, Housing and Communities, and the Welsh Government.
- 1.9 In maintaining and acting on this policy, the WPP will have an ongoing dialogue with its Operator, Investment Managers, Voting and Engagement Provider (V&E Provider), and Oversight Advisor. The WPP will also seek input from third parties where appropriate.

### **2 Ambition and beliefs**

- 2.1 WPP’s long-term ambition is to demonstrate leadership on RI practices in managing assets for and on behalf of the Constituent Authorities. WPP, in conjunction with the OWG and JGC,

will update its annual business plan to ensure that sufficient time and resources are provided to implement the requirements of this policy.

2.2 WPP recognises that the development of beliefs represents best practice for asset owners. In consultation with the Constituent Authorities, the WPP has developed and agreed the following RI beliefs, which serve to underpin its decision-making and governance processes:

2.2.1 The RI behaviours we want to see demonstrated by all our stakeholders must be led by WPP;

2.2.2 The integration of environmental, social and governance (ESG) factors, including climate change, into investment processes is a prerequisite for any strategy, given the potential for financial loss;

2.2.3 WPP is most effective as an investor engaging for change from within, particularly in collaboration with other like-minded investors, as opposed to a campaigner lobbying for change from outside;

2.2.4 Our impact on corporate behaviours will be greatest when we speak with one voice;

2.2.5 The effective oversight of RI practices requires clear disclosure and measurement of comprehensive data.

2.3 WPP will test adherence of the investment arrangements it implements to these beliefs on an annual basis. WPP will also periodically test the continuing appropriateness of its beliefs.

### **3 Investment strategy**

3.1 The Constituent Authorities are individually responsible for setting the investment strategy (and the underlying structure of those strategies, eg geographical exposure) for their own funds, which reflect their membership profile and funding position. The investment strategy is the high-level split between asset classes, both listed and private, including, but not limited to, equities, debt, property and infrastructure. The role of WPP is to provide a means for each Constituent Authority to implement its agreed strategy.

3.2 WPP openly encourages the Constituent Authorities to develop their own RI policy as part of their investment strategy. WPP has developed and may periodically amend this RI policy to ensure that it complements those of the Constituent Authorities.

3.3 WPP will consult with Constituent Authorities on at least an annual basis to determine their individual investment requirements and longer-term aspirations. WPP will use this information to prioritise the development and launch of future investment offerings within the WPP.

3.4 In conjunction with its advisers, the WPP will also consider opportunities arising from a greater understanding of ESG factors. These opportunities could include impact and/or sustainability-themed strategies, as well as social-beneficial investments. WPP may propose such opportunities directly for consideration by Constituent Authorities, including strategies that either meet the RI requirements of Constituent Authorities or have the potential to deliver benefit within the regions covered by the Constituent Authorities.

## **4 Climate change**

- 4.1 WPP recognises that climate change presents a systemic risk to its stakeholders, the Constituent Authorities. Climate change has the potential to affect (and disrupt) economic, financial and social systems, including impacting financial returns and demographics. Risks to the Constituent Authorities arising from climate change include, but are not limited to:
- 4.1.1 Physical risks: such as damage to property from flooding or lower precipitation giving rise to crop failure. Such impact could be felt directly by Constituent Authorities or through the impact on returns delivered to Constituent Authorities via WPP's investments;
  - 4.1.2 Transition risks: the financial risks arising from changes in policy and technology to adjust to a lower-carbon economy, and the extent to which these flow through to the returns delivered to Constituent Authorities via WPP's investments;
  - 4.1.3 Liability risks: the potential costs arising from parties who have suffered loss or damage due to climate change seeking compensation from those they hold responsible, including issuers in which WPP invests.
- 4.2 Climate change is recognised by regulatory bodies and legislators as an issue that must be explicitly addressed by asset owners and investment managers. The uncertainty arising from climate change has implications for Constituent Authorities through WPP's investments.
- 4.3 WPP will engage with its service providers to ensure that a common mechanism for monitoring and understanding climate-related exposures, including risks and solutions, can be developed in respect of all WPP assets. Through this, WPP aims to provide support to Constituent Authorities in developing and implementing their own climate-management policies.
- 4.4 WPP will encourage, through its service providers and delegates, all investee companies to disclose in line with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD).
- 4.5 WPP's broader approach to addressing climate risk is set out in its Climate Policy, which is reviewed annually and can be found on the WPP website.

## **5 Nature**

- 5.1 WPP recognises nature degradation and loss as a systemic risk to its stakeholders, with more than half of global GDP dependent on nature. While WPP understands that the materiality of such risk will vary by sector, biome and geography, WPP recognises the importance of ecosystem services in supporting the resilience of the planet, economy and people. WPP further recognises nature resilience as necessary in mitigating and adapting to climate change, with nature protection an essential element to achieving global net zero emissions.
- 5.2 'Nature risk' incorporates, but is not limited to, biodiversity loss, deforestation, flood management, water stress, pollinator loss and land erosion, which have consequential impacts on economic activity. WPP will endeavour to monitor and report on nature risk, as far as it is able, and will work with its service providers and delegates to ensure adequate stewardship on this issue.

## **6 Human rights**

- 6.1 Societal expectations of companies with regard to human rights are increasing, as are legal and regulatory obligations. There is an increasing expectation on companies to ensure that they protect human rights in line with international, legal and regulatory obligations on a global scale both directly, and within their supply chains.
- 6.2 The WPP recognises that it has an obligation to respect human rights as outlined within the UN Guiding Principles on Business and Humans Rights and to encourage good practice which protects against violation and exploitation. This extends to expecting compliance with normative standards and relevant legislation.
- 6.3 Given the complex nature of many human rights issues, the WPP believes that this is most appropriately addressed through the exercise of stewardship. WPP will therefore endeavour to identify and engage organisations on human rights issues both through the Fund's membership of LAPFF and via the engagement activity undertaken by WPP's Voting and Engagement provider.
- 6.4 The WPP will report on how the engagement activity undertaken by its service providers and delegates have addressed human rights issues on an annual basis.

## **7 Exclusions**

- 7.1 WPP has not adopted an overall policy of exclusionary practices across its underlying active-manager Sub-Funds, though has applied exclusions within certain Sub-Funds. The WPP recognises that the Constituent Authorities may individually adopt an exclusionary policy.
- 7.2 WPP recognises that active-investment management is by its very nature exclusionary and therefore expects that all the Investment Managers employed within WPP will properly consider climate-related and other ESG risks in decision-making within their respective portfolios.
- 7.3 Constituent Authorities have the ability to invest in passive or other rules-based strategies through WPP's passive Investment Manager, which may follow an exclusionary approach.

## **8 Implementation of strategy**

- 8.1 WPP expects that the Investment Managers employed to manage WPP assets will take account of ESG risks as part of their investment analysis and decision-making process. WPP further expects its Investment Managers to be able to demonstrate and evidence high standards with regards to their integration of RI considerations. Where necessary, WPP or its service providers, will engage with Investment Managers who fail to meet WPP's expectations to agree a plan to address any shortcomings.
- 8.2 WPP expects that, in all relevant circumstances, its Investment Managers will be signatories to the Principles for Responsible Investment and the Financial Reporting Council (FRC) UK Stewardship Code.
- 8.3 WPP will engage with its Investment Managers on an ongoing basis to ensure that ESG factors are transparently reflected in decision-making processes and that the approach taken to the management of ESG factors can be properly evidenced. WPP expects that such processes extend beyond reliance purely on third-party ratings/data.

8.4 Within rules-based or index-tracking mandates managed, WPP recognises the influence of benchmarks on the selection of assets. Where appropriate, WPP will work with its Investment Managers and Constituent Authorities to ensure that the potential implications and impact of ESG factors on different approaches are properly understood.

## **9 Stewardship**

9.1 WPP believes that failing to exercise voting or other rights attached to assets could be contrary to the interest of the beneficiaries of the Constituent Authorities. WPP also believes that successful engagement with investee companies can protect and enhance the long-term value of the Constituent Authorities' investments within WPP.

9.2 WPP has appointed a V&E Provider to undertake proxy voting on all shares held within WPP Sub-Funds, and to undertake direct engagement with companies (held within both the active Sub-Funds and passive mandates) on behalf of WPP.

9.3 WPP recognises that its V&E Provider maintains a Proxy Voting Policy, which WPP has reviewed. WPP believes that the principles embedded therein appropriately reflect the objectives of the WPP and has thus instructed its V&E Provider to vote all shares held in WPP Sub-Funds in line with the Proxy Voting Policy. WPP will review the voting policy in conjunction with its V&E Provider, advisers and Investment Managers on an annual basis.

9.4 WPP recognises that its passive Investment Manager may adopt a single voting policy across their pooled funds and WPP will review the appropriateness of such a policy on a periodic basis. WPP will engage with its passive Investment Manager and V&E Provider to consider how WPP's voting policy can be extended to assets managed by its passive Investment Manager.

9.5 WPP will receive reporting on all voting activity, including details of any votes that have not been cast and explanations where votes have not been cast, in accordance with the agreed principles on a quarterly basis. WPP will discuss any issues of concern with its V&E Provider, Investment Managers or other delegates as necessary.

9.6 All the Constituent Authorities, as well as WPP itself, are members of the Local Authority Pension Fund Forum (LAPFF). As members, the Constituent Authorities receive LAPFF voting alerts, directed at particular issues or issuers, on an ongoing basis. WPP has instructed its V&E Provider to consider the substance of the voting alert before casting votes on behalf of the WPP. While the V&E Provider retains responsibility for the final decision on any vote. Where a vote cast is out of line with the LAPFF voting alert, the WPP requires its V&E Provider to provide an explanation of the difference.

9.7 WPP adopts an evidence-based approach to assessing engagement activity. WPP will receive a report on all engagement activity undertaken by the V&E Provider on a quarterly basis. WPP will discuss any issues of concern with the V&E Provider.

9.8 WPP also considers that, in some cases, its Investment Managers will be well placed to engage with investee-company management due to the existence of research relationships between the managers and underlying investee companies. In such cases, WPP expects that engagement activity will take place through this relationship and that its managers should be able to demonstrate, when challenged, the reason for any engagement activity and the objectives of the engagement. WPP will receive reporting on any engagement undertaken by

its Investment Managers on an annual basis. This includes within the private-market investment programmes.

- 9.9 WPP's approach to stewardship is set out in its Stewardship Policy, which is reviewed annually and can be found on the WPP website.

## **10 Collaboration**

- 10.1 WPP believes that collaboration has an important role in helping the WPP achieve its RI objectives. In conjunction with its V&E Provider, WPP will continually assess potential collaboration opportunities and will inform and seek input from the Constituent Authorities on any such opportunity that it deems to be relevant.
- 10.2 WPP together with all Constituent Authorities are members of the Local Authorities Pension Fund Forum (LAPFF). LAPFF undertakes engagement with companies on behalf of all its members.
- 10.3 WPP has an ambition to work collaboratively with other like-minded investors and representative bodies in order to maximise the influence of WPP's assets on investee companies. In conjunction with its V&E Provider, WPP will seek to identify investor-led RI initiatives and collaborations that can be actively supported.
- 10.4 WPP will encourage underlying Investment Managers to participate in or support collaborative engagements where it is deemed to be in the best overall financial interests of Constituent Authorities.
- 10.5 WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.

## **11 Securities lending**

- 11.1 WPP will consider the application of securities lending on a Sub-Fund by Sub-Fund basis, subject to consultation with Constituent Authorities in respect of each underlying Sub-Fund at the point of set-up. For those Sub-Funds in scope, no more than 25% of total assets under management at any one time are considered lendable, with a buffer of 5% of the nominal quantity of each individual holding maintained as unavailable for loan.
- 11.2 To ensure the full application of its voting rights, as far as is practicable, WPP will recall all stocks on loan prior to any meeting at which voting rights may be exercised across the active equity Sub-Funds in scope.

## **12 Monitoring, reporting and measurement**

- 12.1 WPP aims to be aware of, and monitor, financially material ESG-related risks and issues within WPP assets. In consultation with Constituent Authorities, service providers and Investment Managers, WPP has developed appropriate monitoring metrics for existing investments and will continue to agree appropriate metrics in respect of all new investments. Such metrics include climate-related exposures. WPP will require Investment Managers to include such metrics in their quarterly reporting to Constituent Authorities.
- 12.2 WPP will assist Constituent Authorities with the gathering of data and preparation of reporting in line with the requirements of the TCFD framework.

- 12.3 WPP requires that the RI credentials of all appointed Investment Managers are subject to annual review. In conjunction with the relevant parties, the WPP will develop an appropriate reporting framework for its Investment Managers.
- 12.4 On an annual basis, the WPP will prepare and publish a report detailing the actions undertaken in fulfilment of this policy and the results achieved, following the principles of the 2020 FRC UK Stewardship Code.

### **13 Other**

- 13.1 WPP recognises the need for ongoing education for Constituent Authorities on a broad range of investment matters, including RI. As part of its annual training plan, the WPP will ensure there is at least one formal training session directly focused on RI.
- 13.2 WPP expects that all Investment Managers employed on behalf of WPP will disclose costs in accordance with the SAB Code of Transparency.
- 13.3 WPP will review the adherence of all parties to this policy on an annual basis. WPP will publish the results of the assessment in a public report.

### **14 Further Information**

- 14.1 If you require any further details on the RI Policy, please contact [WalesPensionPartnership@carmarthenshire.gov.uk](mailto:WalesPensionPartnership@carmarthenshire.gov.uk) and refer to the WPP website.

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## **Glossary**

Climate Solutions as per the definition provided by the Institutional Investors Group on Climate Change, a climate solution refers to 'those activities, goods or services that contribute substantially to or enable emissions reductions to support decarbonisation in line with credible 1.5°C pathways towards net zero, or that contribute substantially to climate adaptation'.

Engagement refers to the process of interaction between an investor (or its delegate) and the management of an investee company with the objective of creating change in how the underlying company is managed or governed.

ESG is used to collectively describe a series of different risk factors arising from Environmental (e.g. resource scarcity, waste management, pollution, energy efficiency), Social (e.g. health & safety, workforce diversity, working conditions, data protection) and Governance (e.g. board structure, business ethics, shareholder rights, executive compensation) issues.

Impact is a term generally used to describe the social or environmental outcome arising from a particular investment or investment decision, being distinct from the associated financial outcome.

Investment Managers refers to those investment managers appointed directly or indirectly by WPP for the purposes of managing assets on behalf of WPP.

Operator means Waystone, as the appointed operator of the Authorised Contractual Scheme through which Sub-Funds are implemented for WPP.

Principles for Responsible Investment is a global network of asset owners, asset managers and service providers that has the objective of advancing RI practices.

Voting & Engagement Provider means an entity that is instructed to advise on and/or cast votes on resolutions on behalf of an asset owner, as well as carrying out an engagement function with companies on relevant topics of concern.

RI refers to investment practices that integrate the consideration of ESG factors into investment-management processes and ownership practices, recognising that these factors can have a material impact on financial performance.

Service providers and delegates is the collective term for those agents contracted to implement the investment arrangements of the WPP. Such agents include the Operator, Voting & Engagement Provider, Oversight Advisor, Investment Management Solutions Provider and underlying Investment Managers.

Stewardship describes the activities of investors in exercising the rights and responsibilities that come with asset ownership. These practices can include voting on shares and engaging with company management, but also includes the oversight of those to whom such responsibilities are delegated.

UK Stewardship Code is a set of principles and provisions produced by the FRC that sets out best practice in stewardship activities by asset owners and asset managers.

UN Sustainable Development Goals are a set of 17 global goals for 2030 set by the UN General Assembly in 2015.



WPP investments the collective term for all assets owned by WPP. This includes actively managed Sub-Funds, as well as passive mandates within listed markets; and actively managed investment programmes in private (illiquid) markets.